So many lots, so few houses

Last year, almost 12,000 lots in the three-county area sat empty. Local cities and taxpayers could end up paying as growth stalls.

By Britt Johnson

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If the housing market hadn’t crashed, perhaps strangers wouldn’t drink beer or lotter in Sue Tarr’s underdeveloped south St. Cloud neighborhood.

Perhaps she wouldn’t have had to call the city last summer about unused woods. And perhaps the value of her home wouldn’t have fallen $20,000.

But here’s what gets her mad. Last year her tax dollars paid for new pavement and stop signs on streets that don’t go anywhere.

“Well, there go my city tax dollars, and no one ever uses those streets,” Tarr said. “I thought it was a useless expense.”

The 14-year-old development still has empty lots and grassed-over dirt mounds surrounding the southeast corner of the south St. Cloud neighborhood. Sue Tarr lives about a mile from the west side.

Empty lots and grassed-over dirt mounds surround Sue Tarr’s south St. Cloud home in the Bear Ridge development. She likes the privacy of having few neighbors, but worries about what will happen to her home’s value.

Central Minnesota developers, builders and investors lost millions in betting on new housing developments that looked like a sure thing — until the bubble burst.

Investigators have found 6,000 lots in the three-county area, according to data from county assessors. And taxpayers are still paying for some unfinished projects.

At the end of 2009, almost 12,000 and the nation entered its worst recession in decades. At the end of 2009, almost 12,000 lots in the three-county area sat empty.

In the county area, according to data from county assessors, including St. Cloud, there are 6,000 lots in the three-county area.

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At the end of 2009, almost 12,000 lots in the three-county area sat empty.
A few houses dot the network of roads in the Waters Edge at Donovan Lake development on June 3. The project was supposed to bring 2,126 new housing units.

In some cases, they say they can’t sell lots for what they owe cities that helped pay for infrastructure in new neighborhoods.

“It’s almost like they’d give the lot for free if you’d build the house,” said John Norman, St. Cloud’s finance director. “It’s not a good thing.”

St. Cloud issued residential building permits for projects worth more than $70 million combined.

Cities in fast-growing areas such as St. Cloud expected the growth to continue and help pay for new residential subdivisions. As area communities planned for the future, they based their decisions on projections of strong growth from the state demographer’s office and other sources, said David Downen, a financial advisor who works with several Central Minnesota cities.

“Just about everybody was telling them, ‘Expect a lot of growth,’” Downen said.

“It didn’t happen.”

In 2004, Minnesota city leaders were also trying to deal with a glut of building sites like Tarr will continue to hold onto the land, so they are looking to sell lots cheap, Couri said. He likens the situation to “a watermelon going bad.”

“Cities have been told there’s going to be a lot of property tax revenue,” said Jeff Johnson, assistant St. Cloud finance director. “It’s not a good thing.”

Even if a development has only one or two homes, the city is still responsible for dollars spent on street and street improvements.

In many cases, the lots are foreclosed on and resold for a fraction of what was originally paid. Sometimes, builders will not be able to cover their losses.

“Cities have been told there’s going to be a lot of property tax generated from the homes being built,” said Dale Powers, a former Clear Lake City Council member and a private planning consultant.

He said a lone skeptic can make a difference.

“You can’t tell that person no.”

“It takes a lot of convincing ... and tell him no,” The lone skeptic is someone who is confident that growth isn’t going to happen, either because of a recession or that the area’s population won’t grow.

“Just about everybody was going with their gut instead,” Johnston said. “People are still building, but they’re being very cautious about the market.”

Dale Powers, former Clear Lake City Council member and private planning consultant

Dale powers said the city’s current signature doesn’t have a traditional city manager and city council. Instead, it has a city administrator and a mayor.

“Outside the shadows, every politician is a manager,” he said. “That’s what this is.”

As area communities are now stalled. But it’s one factor in their decision, said Louis Johnson, associate professor of economics at the University of St. John’s.

Johnson said he thinks a cooling-off period should be allowed for new subdivisions in the St. Cloud area, including Croix Creek in St. Cloud and Avalon Villas in Sauk Rapids.

“Banks don’t want to deny a new subdivision even though they recognize it’s premature,” Powers said.

“They can’t ask them to say they aren’t going to build, (whom) they’ve known their whole life ... and tell him no,” Downen said. “It takes a lot of strength by an elected official to tell that person.”

In the St. Cloud Times • www.sctimes.com
In stalled developments, disappointed homeowners wait for expected amenities

By Britt Johnson

In Stearns and Benton counties, the local housing market has changed. A decade ago, developers and builders did not have to worry about getting ready-to-build lots. A realtor or developer would open a conversation with the homeowner and ask if they were interested in building a home, and that conversation would go on to look at different neighborhoods, lots, and builders. Today, many homeowners know a lot about the homebuilding process and have their ideas in mind.

Casey Howell and her husband thought they had found the perfect place for their family. They moved in August 2007 to Waters Edge LLC in Donanor Lake in east St. Cloud. They said they appreciated the development’s scenic views, tree-lined streets, and quiet part of town.

“We expected it to pick up sooner than it has,” she said.

Waters Edge had been touted as St. Cloud’s largest planned development by a single developer. The Times examined records of the stodgiest examples of the scores of unfinished or empty developments in Central Minnesota. Almost 12,000 lots sat unused in Central Minnesota by the end of last year, according to property records. The Donanor Lake project had been intended as a new housing units in the following 10 years.

Construction crews worked in 2004 and 2005, stoking expectations that it would bring new growth to the Quiet Community, a quiet part of town.

“Mr. Crouch, how long do you think this really active ball market will last?” she recalled a council member asking.

“It will end about the time the lots sell and his development is completed,” he said. “I’m here for the long term.”

When you get something like Nina Steil’s neighborhood, she’s an image of the building. Waters Edge LLC and its parent, Edenima Development Corp., in November 2006 Red Book chapter 11 bankruptcy protection.

They sold a downtown in the housing market, now they had to file for bankruptcy protection. The waters Edge project’s failure to meet expectations didn’t cost the taxpayer directly. But it has disappointed some people, like Howell. For example, on a upgrade, she likes the open, quiet environment.

And she said she wasn’t disappointed, she knew the market would be slow. But she had hoped to at least have some of the amenities promised. She had expected just that in the Deer Creek East neighborhood, but she didn’t get it. Instead, she said, she was shocked by the neighborhood’s lack of street lights. And she said she was surprised by the narrow streets she grew up on. But it’s not as easy to have little traffic. And she enjoys a privacy area with few neighbors.

By the Numbers:

A look at how the local housing industry has changed

At the end of 2009, almost 12,000 ready-to-build lots sat vacant in the three-county area. Taxpayers still are paying for some of those unfinished projects.

At one recent point, St. Cloud had 1,700 vacant lots.

In Stearns and Benton counties last year, sheriff’s offices foreclosed on 561 properties. That’s down about 7 percent from the year before, but remains up 77 percent from 2006.

The Central Minnesota Builders Association has 456 members this year, down from 600 in 2005, and on par with 595 in 2002.

Steve Murphy lives in a neighborhood nearby. The unfinished development is not a big deal to him. He understands the housing market.

“I'm not out yet we've got an infant and middle of nowhere,” he said.

She didn't have an expectation of what the neighborhood would be like when she moved in. She likes the privacy she has in her neighborhood.

But she worries about what will happen if she wants to sell her house.

And even though police occasionally drove through the neighborhood, she's concerned about the lack of street lights.

There are ample opportunities for people to come and go, and they do,” she said.

Times photo by Kimm Anderson, kanderson@stcloudtimes.com

The roads and lots are there, but only one new home sits in the Aven Estates development off Stearns County Road 54 north of Aven.

In Stearns and Benton counties, the local housing market has changed. A decade ago, developers and builders didn’t have to worry about getting ready-to-build lots. A realtor or developer would open a conversation with the homeowner and ask if they were interested in building a home, and that conversation would go on to look at different neighborhoods, lots, and builders.

Today, many homeowners know a lot about the homebuilding process and have their ideas in mind.

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When developments stall, cities that helped are paying the bills

Some area governments wait on payments that might not be coming

By Kirei Marsh and Britt Johnson
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A single home sits June 3 in the 200-acre Avon Estates development. The roads and cul-de-sacs were designed to support almost 100 homes in the first of seven planned development phases.

Three years later, a brick sign greets visitors at the entrance to the development. “Avon Estates — Welcome Home.”

A single house stands in the middle of the vast development, marooned in a sea of empty cul-de-sacs, tall grass and winding roads that lead nowhere.

Eighty-eight homes had been planned for the first of seven phases. The developer, Percheron Properties, is gone.

When developments stall, cities that helped are paying the bills for new homes that likely won’t materialize.

In Avon, developer representatives said Sunday that the project is struggling due to slow sales and challenges with the housing market.

City officials agreed to use a common public financing tool — mimicked bonds — to pay up front for the improvements. The cost will be collected from the property owners through assessments tacked onto property tax bills.

It seems like a good plan. But it’s 2007. The housing market is plummeting fast.

Three years earlier, a conductor of local chambers of commerce said the worst was over and that growth would sooner or later come true.

Bromen said the Red Cross also has provided meals and mental health services to tornado victims.

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The city of Wadena warns residents displaced by the tornado that this area becomers dangerous Sunday, though those who can return to homes still need help.

Wadena officials said Sunday that travel restrictions on the southeast part of town have been lifted to allow residents back to recover personal property and make repairs.

A $1.35 million grant will help Freeport businesses recover from the tornado.

The public cost of Central Minnesota’s housing boom and bust

Day 2 in a 3-part series

Central Minnesota developers, builders and investors lost millions betting on new housing developments that looked like a sure thing.

Investigative — until the bubble burst. And when demand for new houses hit a near-standstill, they found the city’s only ones with a stake in the game. People who bought homes in near-vacant neighborhoods worried about resale value. And government officials who looked at the development in this area from a distance, were stunned.

New homes are finding themselves with hundreds of thousands — in some cases, millions — of dollars in outstanding assessments owed by developers who are often struggling, bankrupt or long gone. “All these cities forgot that the developer has no responsibility,” said Michael Couri, an attorney for several Minnesota cities.

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“Those new revenues that were expected to come into the system to carry some of the burden aren’t there. That poses very real problems for a city.”

David Drown, Financial adviser

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The public cost of Central Minnesota’s housing boom and bust

The housing market crisis of 2006 was supposed to bring 1,261 new housing units in 10 years. Fifty-seven homes were built.

GAMBLING ON GROWTH

Waters Edge at Donovan Lake is seen June 10. The project was supposed to bring 1,261 new housing units in 10 years. Fifty-seven homes were built.
STALLED ST. CLOUD-AREA DEVELOPMENTS

The Times examined residential developments in nine area cities platted since 2000. Each had at least 10 vacant lots at the end of last year.

Pick your own or pre-picked berries available at:

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GAMBLING ON GROWTH

Follow the action by St. Cloud City Council members.

Read the third installment of Gambling on Growth.
In Avon, debt replaces high hopes

By Kirsti Marohn

AVON — By all rights, Avon should be a city brimming with prosperity. Nestled among several lakes, just off Interstate Highway 94 and an easy 15-minute drive to St. Cloud, it was an attractive locale for developers looking to cash in on the housing boom.

"Here, residents and businesses enjoy easy access to all the amenities of big-city living — cultural and art activities, major league sports, high-end retail stores — without any of the hassles," the city's website says. Indeed, Avon's cosmopolitan living in the country.

The proposals were grand in scale: two developments with hundreds of upscale apartment homes for next residents. Water's Edge was supposed to have 110 homes; Avon Estates was anticipated to have as many as 650 housing units, with 88 single-family homes planned for the first phase.

But Water's Edge stands about half empty. Avon Estates has just one house. And the city is strapped with a serious financial burden.

John Grutsch has been mayor since 2007 and was on the city Council for 25 years before that. Grutsch says the situation is "a little worse than we thought." He said, "We've so much at stake here," he said. "$64.4 million to extend sewer and water to developments with about 2 miles of Water's Edge cost the city $184,000.

The first two phases of Water's Edge have been completed and sold. But just as the developer was ready to sell Phase 3, the housing bubble burst. None of the three assessments have been paid.

At first, Avon officials weren't worried. "It wasn't like we were dealing with a lender by a letter of credit," Grutsch said. "We just thought it was a good deal."

But Waters Edge, the letter of credit to make the bond payments for the Avon Estates improvements. But for Water's Edge, the letter of credit from Lakeland is worthless. The city is dipping into its reserves to make those payments.

"When Avon built its wastewater treatment system there were all these expectations that it would produce enough revenue to cover all the costs," Grutsch said. "But it didn't seem like we were rolling the dice at the time... Would we do it differently today? Yeah, we would. Everybody would.

The city is negotiating with its bank to get ownership of those assets are frozen, Grutsch said. And if you try to get information, it's like, 'We'll get back to you.'"

The city is drawing on a letter of credit to make the bond payments for the Avon Estates improvements. But for Water's Edge, the letter of credit from Lakeland is worthless. The city is dipping into its reserves to make those payments.

"The only value that's left is those payments," he said. "Everybody realizes that there's no value in the project. It's now fully owned by the city clerk.

He's confident that eventually, homeowners will resume in Avon because of its proximity to the I-94 corridor. But for now, the city doesn't have a cash flow problem because it's not generating the revenue if you're not generating the sales tax."

"You don't lose any revenue if you're not generated," Grutsch said. "But that's what we've over the last few years. We haven't demonstrated that yet.

The city of Clear Lake prepared enough capacity in the wastewater treatment plant there with Clearwater-Wadena to cover all three phases of Hunter Lake Bluffs, a proposed 156-lot development launched in the early 2000s. The city required the developer, Haller Investment LLC, to pay sewer and water connection fees for at least 10 homes a year to help the city recoup its costs. But the developer shuttered after the first two phases, leaving the city with $1.1 million unpaid sewer and water fees.

"We're not happy to have lost that kind of money, but we still have to pay the costs. We have to work with the city to get the costs paid," Grutsch said. He added that the city reached out to the developer and "paid the lender more than $2 million to give the city some flexibility for the development.

While they negotiated terms that allow the city to get control again, they choose, he said, "it's unlikely they enter the project."

The Clear Lake City Council is preparing to sell city owned sewer and water access fees. The city has a $1.2 million capacity for the cost of the development. But the council hasn't heard from benefit, Bujalski said. Bill Haller, city's director of public service, said that the city "would end up paying more than $1 million out of the project.

"This was an unforeseen thing," he said. "We don't think we even had covered this.

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GAMBLING ON GROWTH

The public cost of Central Minnesota's housing boom and bust

"This was an unforeseen thing. We thought we had covered every base."

Marilyn Bujalski

Page 6A

Houses will need to almost triple its rates without the addedсолныне

As an incentive to builders, St. Augusta recently began building permits, plugging delay the collection of sewer and water access fees.

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WADENA (AP) — Winds whipped up a tornado that swept through Wadena and damaged more than 200 homes last week, but it was the weakest of several storms that hit Wadena and several other rural counties.

The storms that hit the state Thursday killed three people, injured dozens more and severely damaged a few buildings.

Gov. Tim Pawlenty declared a state of emergency in Faribault, Freeborn, Olmsted, Pennington, Pine, Polk, Ramsey, St. Louis, Stearns and Wadena counties.

The tornado that hit the Almo-Bluffton area had winds up to 136 mph and did damage along a path measuring 1.3 miles wide and 36 miles long. Many homes and businesses were destroyed.

"It ripped through a residential neighborhood and heavily damaged several hundred homes through the air," the storm's director said.

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Saugatuck.

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Saugatuck.
New plan: Local of portable classrooms. Adjust plan for Clearview's assault. Rainbow rockers in battle to gain customers. It's a great time to buy estate agents are selling, too.

Moving ahead with caution. Optimism remains, but cities, builders have changed how they view development.

GAMBLING ON GROWTH
The public cost of Central Minnesota's housing boom and bust

Day 3 in a 3-part series

Central Minnesota developers, builders and investors lost millions in housing developments that looked like a sure thing -- until the bubble burst.

And when demand for new homes hit an all-time high, they weren't the only ones

Investigative with a stake in the game. People who bought homes in near-urban neighborhoods worry about resale value. And government leaders who borrows money to build utilities and roads that go nowhere are trying to figure out how to pay the bills.

Online diary: Go to www.sctimes.com for a personal view development.

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The public cost of Central Minnesota’s housing boom and bust

As a result, Sauk Rapids has had to lose from its housing development, said Turning View Estates and a developer.

"The city is facing financial strain on that subdivision," he said. "People will want that extra parks, "he said. "They've been very patient, " he said. "They're going to want that extra park, " he said. "There may be a need for an additional fire truck." But some developers con- tinue to build because they believe there will be a demand for new homes. Mandarin of Baker of Construction said people have called him about new subdivisions.

"Really, the city's only friction is that we have to plan carefully," Drown said. "It's a very rare opportunity. What I would hope is that we see a chance to buy cheap land before it's gone."

"It's working for them," he said. "There have been sales." Some city officials said they are aware of the surplus of inventory. "I'm not trying to be a dark cloud," said Jack Kahlhamer, the chairman of Springsted Inc., a community development consultant, said all cities that have enough cash in the hope of spending it. "We aren't going to want to see anything where we have to lose dike or a kilometer to get to a new subdivision," he said.

"If a developer came to Sauk Rapids with a $150,000 deal, "we would look at it in a different light than what we are looking at it now," said Schultze.

"In that a good thing that we have to do is that many things have to be worked through the pipeline before things can start getting ready to be built," he said.

"The changing times might also challenge a common be- lief that new residential develop- ment pays for itself with property tax revenue. While this can be true with expensive homes, new residents also mean more revenue for city services, Powers said. "They go to that," said Powers. "They're having to work harder for what they had in the past," Millard said.

"We aren't going to want to sell homes — sometimes the land off their hands. Banks have managed to buy up as much as Turning View Estates and a developer.

"People are behaving more cautiously and require more than 50 percent of what it will cost to extend roads and more by 4 or 5 miles, " he said. "Because of that, the city will want that extra park," he said.

"They're going to want that extra po- rite, "he said. "People will want that extra park, " he said. "There may be a need for an additional fire truck." But some developers con- tinue to build because they believe there will be a demand for new homes. Mandarin of Baker of Construction said people have called him about new subdivisions.

"Really, the city's only friction is that we have to plan carefully," Drown said. "It's a very rare opportunity. What I would hope is that we see a chance to buy cheap land before it's gone."

"It's working for them," he said. "There have been sales." Some city officials said they are aware of the surplus of inventory. "I'm not trying to be a dark cloud," said Jack Kahlhamer, the chairman of Springsted Inc., a community development consultant, said all cities that have enough cash in the hope of spending it. "We aren't going to want to see anything where we have to lose dike or a kilometer to get to a new subdivision," he said.

"If a developer came to Sauk Rapids with a $150,000 deal, "we would look at it in a different light than what we are looking at it now," said Schultze.

"In that a good thing that we have to do is that many things have to be worked through the pipeline before things can start getting ready to be built," he said.

"The changing times might also challenge a common be- lief that new residential develop- ment pays for itself with property tax revenue. While this can be true with expensive homes, new residents also mean more revenue for city services, Powers said. "They go to that," said Powers. "They're having to work harder for what they had in the past," Millard said.

"We aren't going to want to sell homes — sometimes the land off their hands. Banks have managed to buy up as much as Turning View Estates and a developer.

"People are behaving more cautiously and require more than 50 percent of what it will cost to extend roads and more by 4 or 5 miles, " he said. "Because of that, the city will want that extra park," he said.

"They're going to want that extra po-